



Statement before the United States House of Representatives
Committee on Ways and Means
Social Security Subcommittee

Hearing on Securing the Future of the Social Security Disability
Insurance (SSDI) Program

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Social Security's Disability Insurance (DI) program pays benefits to over 8 million disabled Americans, along with an additional 2 million dependents. Perhaps more importantly, it provides *protection* against disability for over 150 million workers. But over the past two decades, the share of working age Americans collecting disability insurance payments has doubled, from 2.3 to 4.6 percent of the population aged 25 to 64, with the largest increases coming among women. As a result, inflation adjusted costs have roughly tripled over that time period to over \$125 billion in 2010, with at least \$70 billion more in Medicare expenditures on the disabled. DI may not receive the same level of public attention as the retirement portion of Social Security, but it is clearly a large program both in terms of its costs to the taxpayer and its impact on Americans' lives.

Unfortunately, the Disability Insurance program is also under considerable financial strain. While we generally consider the Social Security program's finances as a whole, legally the DI program is distinct from the Old-Age and Survivors (OASI) program with its own payroll tax and its own trust fund. Under the Trustees intermediate cost projections, the DI trust fund will become insolvent in 2018. By 2018, DI payroll tax and other revenues would be sufficient to pay only around 86 percent of scheduled benefits, with further reductions in coming years. Put simply, DI's fiscal shortfalls are no longer a long-term problem that can be put off indefinitely.

History shows that the size and structure of the Disability Insurance program is under Congress's control, far more so than the demographically-driven Old Age and Survivors Insurance program. What is necessary is for Congress to regain control of the DI program through careful judgments regarding the goals of the program. Who is and isn't disabled is not a question in the same sense as asking whether a given person has reached the full retirement age or attained sufficient quarters of coverage to qualify for retirement benefits. Disability covers a broad spectrum of issues and Congress is within its power and authority to decide where on that spectrum government assistance should be provided.

The increasing size and cost of the DI program may be puzzling given its origins as a relatively modest "add-on" to Social Security. The growth of the DI program was not a matter of single "big bang" reform but of a slow and steady expansion of the program's scope and

generosity. For instance, when DI began in 1956 it was restricted to workers between the ages of 50 and 64 who had a substantial work history and who became permanently disabled with no expected return to work. As a result, the number of beneficiaries as of 1959 was only around 330,000, equal to about 0.3 percent of the working age population.¹

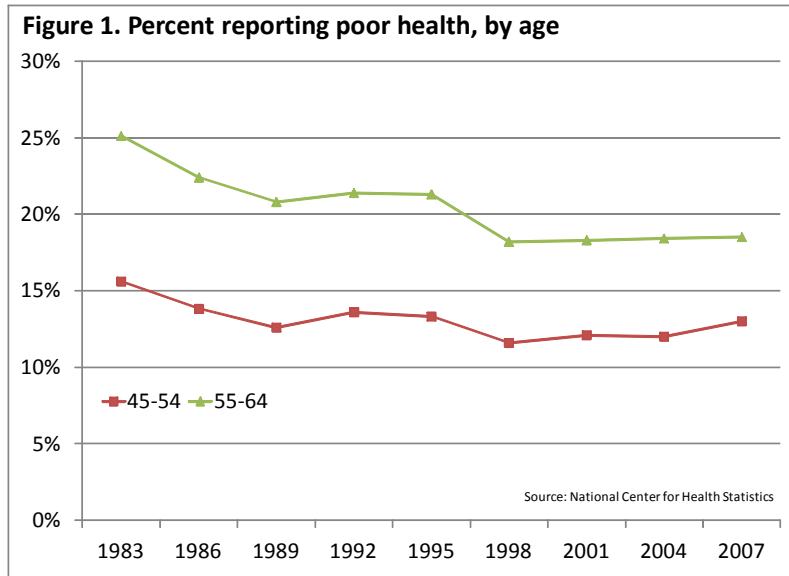
However, what began as a modest program grew over time. In 1958, the program was expanded to provide benefits for dependents of disabled workers. In 1960 the minimum age restriction of 50 for DI benefits was eliminated. The Social Security Amendments of 1965 eliminated the requirement that disability be permanent, substituting a requirement that the individual be unable to work for 12 or more months. Moreover, during the 1960s court judgments made it easier to qualify for DI benefits by, for instance, placing a greater burden on the government to illustrate jobs for which applicants might be hired or limiting the geographic region in which potential jobs might be located. The Social Security Amendments of 1967 allowed for benefit payments to disabled widows aged 50 or older. More broadly, benefits were increased over time along with the rest of the Social Security program.

Similarly, DI has shifted from a medical model focused on specific physical impairments to a functional model that incorporated and came to focus on the individual's ability to engage in paid work.² Due to the process by which DI expanded, the typical American – and perhaps the typical Member of Congress – isn't aware of how large and costly the system has become.

In this way, DI differs from the Old Age component of Social Security, where the generosity of benefits relative to pre-retirement earnings is roughly in line with historical norms. The Old Age component's increase in costs is almost entirely a function of demographics, of rising numbers of beneficiaries whose benefits must be financed by relatively smaller populations of workers. By contrast, the increase in disability costs is not simply a function of more beneficiaries but of different beneficiaries with impairments that in the past may not have qualified them for benefits. Thus, Congress must think not only about the size of the beneficiary population but its composition as well.

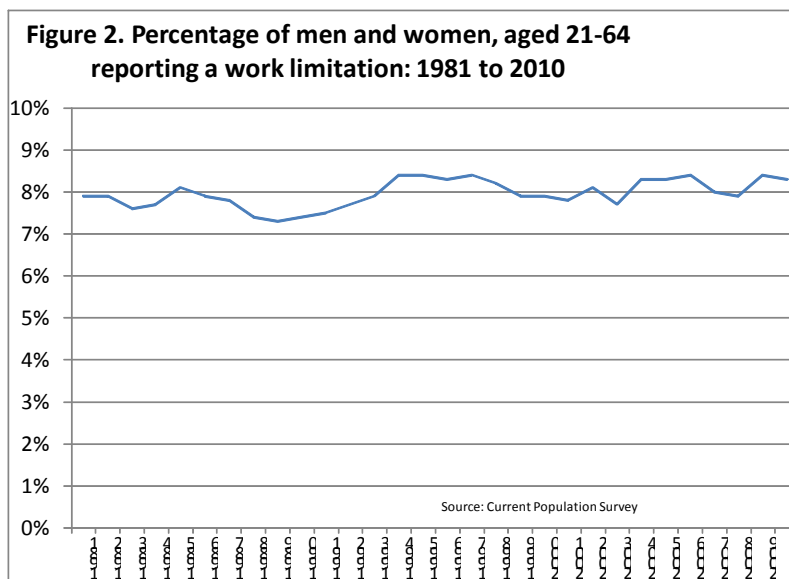
¹ See Martin, Patricia, and David Weaver. 2005. "Social Security: A program and policy history." *Social Security Bulletin* 66(1): 1-15.

² See Jennifer L. Erkulwater. *Disability Rights and the American Social Safety Net*. Cornell University Press, 2006.



significant drop for individuals aged 45 to 54.

The rise in the DI caseload is not principally attributable to poorer health within the working age population. According to data from the National Center for Health Statistics (Figure 1), the share of 55 to 64 year olds reporting themselves to be in fair or poor health declined from 25 percent to 18 percent from 1983 to 2007, with a smaller but still

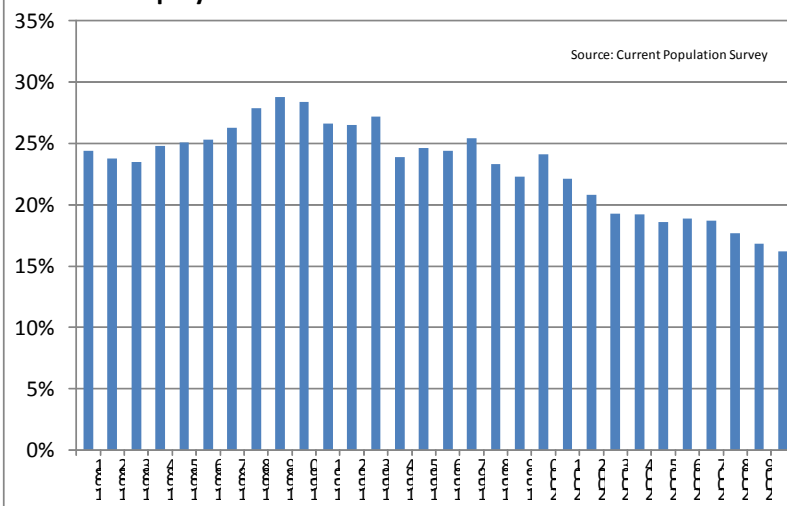


in the workforce.

Similarly, the share of working age individuals reporting a disability that either limits work or prevents them from working has remained roughly stable over the past three decades, according to Census Bureau data. (Figure 2) The problem, at least as reported by individuals themselves, is not of greater incidence of disability but of fewer such people participating

The percentage of individuals reporting disabilities who are employed has dropped significantly, from a recent high of 29 percent in 1989 to only around 16 percent today. While current figures are in part a function of the depressed economy, as Figure 3 shows, there has

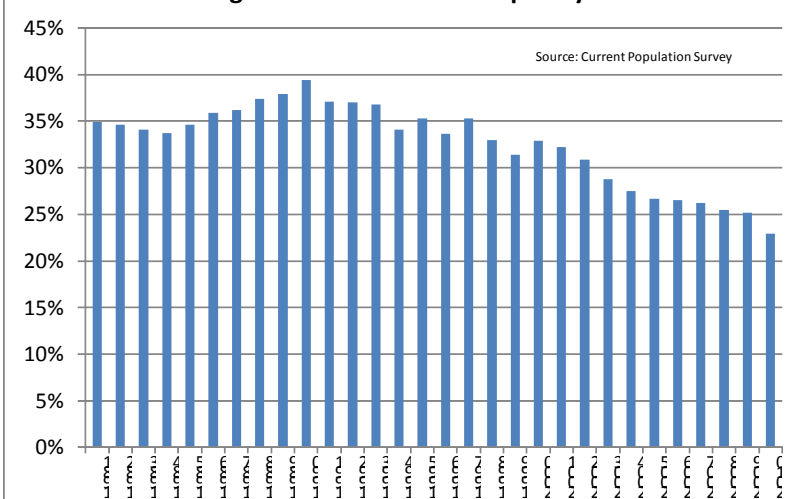
Figure 3. Percentage of individuals with disabilities who are employed: 1981-2010



been a longer-term trend toward lower employment among the disabled for the past two decades.

Moreover, an increasing number of individuals with self-reported disabilities had almost no contact with the labor force in the prior year. (Figure 4) In 2010, only about 23 percent of working age individuals with self-reported disabilities worked more than 52 hours in the prior year, versus 38 percent in 1990. This means that three out of four individuals with self-reported disabilities were out of the labor force for essentially the entire year, a time during which work-related skills and contacts erode. For these individuals, prospects for a successful return to employment are grim, even once the

Figure 4. Percentage of individuals with self-reported disabilities working more than 52 hours in prior year

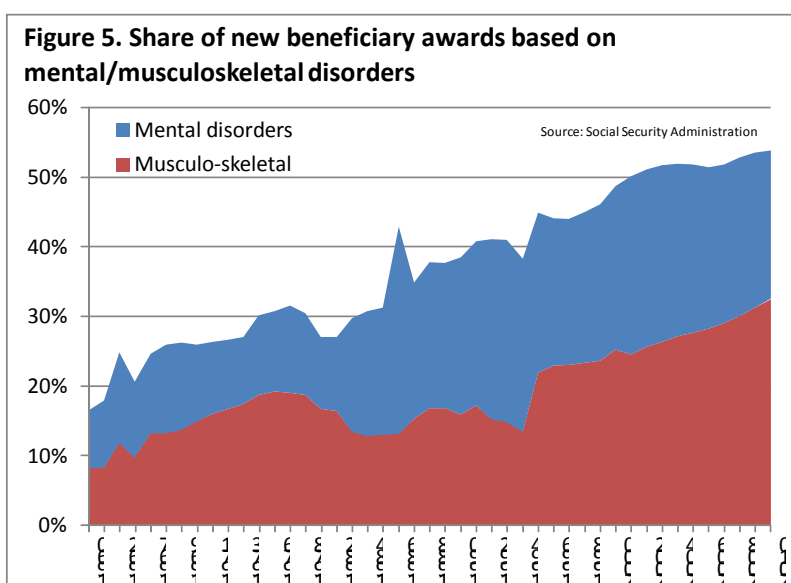


economy recovers. Even if marginally disabled individuals may have been employable when they entered the program, after a period of time on DI they may no longer be so.

Research published by the RAND Corporation shows that roughly one quarter of current DI applicants are only marginally disabled, meaning that they are accepted or denied for benefits based only on the idiosyncrasies of the examiner who handled their case. Many of these marginal applicants, the researchers found, could and would continue to work except for

the provision of DI benefits and the rules under which they are paid.³ These applicants, who are predominantly younger, suffer from mental disorders and have low incomes, could remain on the job if given the proper assistance and incentives.

As system costs have risen, so has dependence on DI payments for household income. For instance, among men with self-reported disabilities in 1982, roughly 14 percent of household income came from DI or SSI disability benefits; for similar men in 2009, that figure stands at over 25 percent. For women with disabilities, the increase in reliance on DI income was even larger. Among all working age households, the share of income driving from DI benefits has almost doubled since 1982.⁴



Part of the problem is simply that many of the conditions now allowed under DI rules are very difficult to judge. The share of new beneficiaries with either mental or musculoskeletal disorders rose from around one-fifth in the late 1960s to over half today. (Figure 6) As the RAND research cited above concluded,

roughly one quarter of DI applicants are accepted or rejected based upon the luck of the draw.

While it is easy to conclude that rising disability rolls are due at least in part to fraud or faking by beneficiaries, the criteria themselves may be so subjective that no fraud is necessary. Most of those who apply for DI have some level of disability; the job of SSA is to determine whether applicants satisfy the criteria set by Congress, but Congress's job is to ensure that the

³ Maestas, Nicole, Mullen, Kathleen J. and Strand, Alexander. "Does Disability Insurance Receipt Discourage Work? Using Examiner Assignment to Estimate Causal Effects of SSDI Receipt?" (May 1, 2011). Michigan Retirement Research Center Research Paper No. WP 2010-241.

⁴ Source: Richard Burkhauser and Mary Daly. *The Declining Work and Welfare of People with Disabilities*. The AEI Press, 2011. From March CPS data.

criteria are explicit enough that we can be confident that similarly-disabled people will receive the same judgment by the system.

In addition, DI decisions have increasingly come to be made on vocational rather than medical grounds. If an applicant meets the medical criteria for disability, his or her application is accepted. However, even those who fail to meet the medical criteria may nevertheless be granted DI benefits if SSA judges that the combination of their age, education, work history and other factors makes it unlikely that person would once again be able to obtain or hold a job. In the mid-1960s, only around 16 percent of all applications were decided on vocational factors; in 2010, roughly 55 percent were.⁵ Moreover, different states use vocational standards to very different degrees. In New York and Washington State, for instance, around 60 percent of DI awards are made on vocational grounds while in Hawaii and Indiana only around 30 percent are.⁶

In light of all this evidence, the Disability Insurance program needs to be rationalized. Disability is a subjective condition that covers a spectrum from total to non-existent. But government isn't good at making subjective judgments, leaving room for discretion, error, and variability on the side of the government employees charged with screening disability applicants. One of the goals of DI program reform is simply for Congress to re-state its intentions with regard to the system, clarifying the types of conditions it wishes DI to insure against and the process by which decisions should be made.

In recent history, at least, DI reform has been taken to be too difficult, even in the context of overall Social Security reform. I served on the staff of President Bush's 2001 Commission to Strengthen Social Security as well as on the White House National Economic Council in 2005, and in neither case was much attempt made to address DI's structural shortcomings. But today, there are strikingly similar efforts from across the political spectrum to modernize DI to make it both more fiscally sustainable as well as produce better outcomes for the covered population.

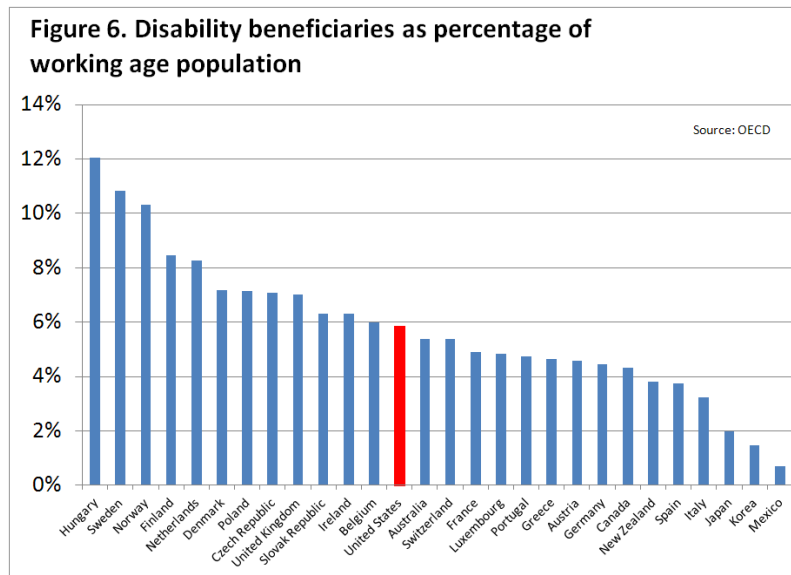
⁵ Burkhauser and Daly (2011). Figure 3-7, based on SSA data.

⁶ Social Security Advisory Board. "Disability Decision Making: Data and Materials." May, 2006.

For instance, one proposal from David Autor of MIT and Mark Duggan of the Wharton School would require employers to carry private disability insurance which would cover benefits for a short period until Social Security DI took over. Mandatory private insurance would give employers the incentive to accommodate workers with disabilities so that they might remain in the workforce, which is the best outcome both for the worker and for Social Security.⁷

Similarly, a proposal from Richard Burkhauser of Cornell and Mary Daly of the Federal Reserve would provide “experience rating” for disability payroll taxes, much like employer contributions toward state Workers Compensation programs. Employers who can keep individuals with disabilities on the job will be rewarded with lower taxes, while those who shift workers onto DI will pay more.

It is worth bearing in mind the costs the disability programs can impose on national budgets, as we look at troubled government finances around the world. Compared to other



countries, the United States is merely in the middle of the pack in terms of keeping individuals with disabilities in the workforce. Overall, around 5.9 percent of working age Americans are receiving some form of disability benefit, either Social Security DI or Supplemental Security Income. This places the U.S. on par with countries such as Belgium and

⁷ Autor, David, and Mark Duggan. “Supporting Work: A Proposal for Modernizing the U.S. Disability Insurance System.” The Center for American Progress/Hamilton Project, 2010.

above France, Greece, Germany and Italy. Other countries have begun to reform their disability programs – one example being the Netherlands, which through a series of reforms introduced beginning in the late 1990s reduced its disability inflow rates by roughly 60 percent.⁸

While reforms can take different shapes, an emphasis both in research here and policy abroad is to shift employer incentives toward greater accommodation for individuals with disabilities. If through such reforms we were able to reduce Social Security's disability incidence rate from its intermediate projection half-way to the low-cost projection, total savings over 75 years would exceed \$400 billion in present value. Lowering the disability incidence rate to the low-cost levels would reduce overall system costs by around \$850 billion. And a portion of these savings will come not through reduced DI outlays, but through increased taxes based on increased earnings of Americans who are able to stay on the job. In other words, reform of the Social Security DI program can be a win-win for the budget and for affected individuals if only we are creative enough to think outside the ordinary boxes of what reforms might look like.

⁸ Van Sonsbeek, Jan-Maarten and Gradus, Raymond. "Estimating the Effects of Recent Disability Reforms in the Netherlands" (August 12, 2011). Tinbergen Institute Discussion Paper No. 11-121/3.